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**THE NEW
HIDEAWAY**

**THE COURTS—
CAN THERE BE
A RISKLESS
SOCIETY?**



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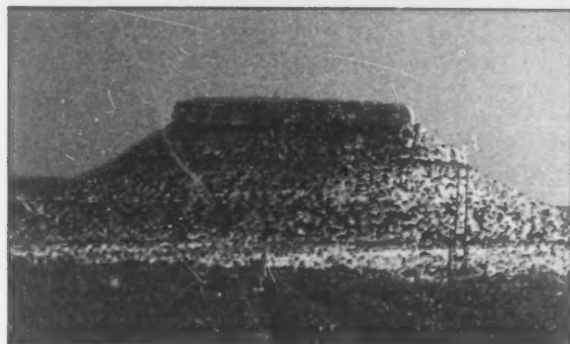
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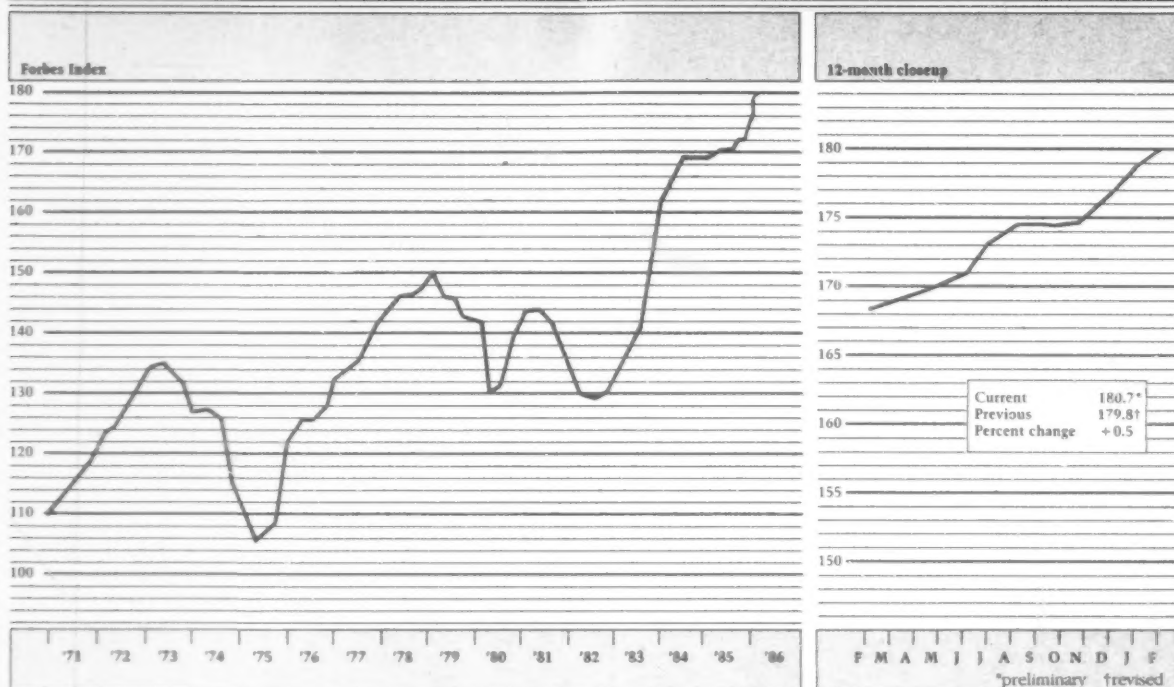
Tuition is rising, and Washington is helping students less and less.

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Cover illustration by Bryce Lee, inset by Barrett Root

The Forbes Index



Achilles' heel. The Forbes Index climbed 0.5% during the latest reporting period, to yet another alltime high. Despite the new record, however, three components indicate that the economy still has some weak spots. New unemployment claims, for example, ratcheted upward 5.5%, the largest month-to-month jump in 16 months, while retail sales fell 0.1%, the second consecutive monthly

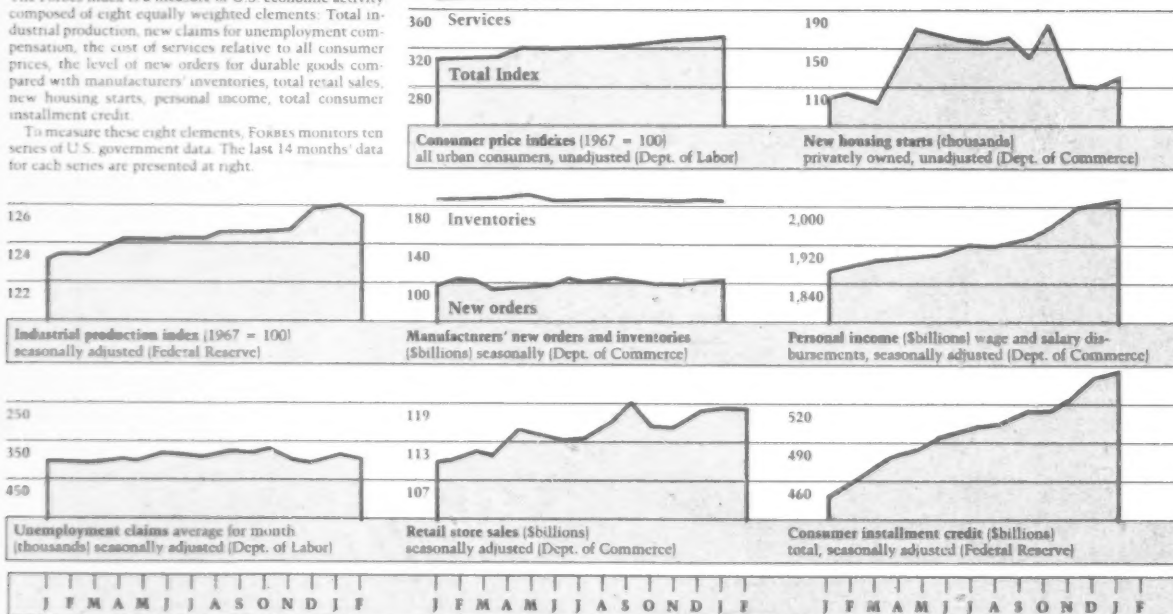
decline. Industrial production also went down 0.6%, the first drop since October.

Bright spot: A 1.3% rise in new orders for durable goods, coupled with a 0.3% drop in inventory levels, may soon mean a boost for factory production. Furthermore, with inflation in check, the Federal Reserve has room to lower interest rates further to stimulate the economy.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



Governments all over are selling state assets to shrink their public sectors and inject more competition. Good thinking, but are these assets good investments?

Priced to move

By Marcia Berss

HIGH ON THE POLITICAL agenda of the newly elected conservative government in France is privatization—selling back to the private sector companies that were nationalized by socialist President François Mitterrand in 1982 or taken over by Charles de Gaulle in 1945. International investors will be offered some of France's biggest corporations—leading banks, giant industrials and prominent insurance firms—at bargain prices on the Paris stock market.

Across the English Channel, the story is the same. Well-known government-owned outfits like British Airways will be sold on the cheap.

Why should big economies like France and Britain give away the family silver? Because privatization has more to do with shrinking the size of government and spreading capitalism than with raising money.

Consider. These are, after all, some

of Europe's best-known businesses, mature, firmly established companies like French chemical company Rhône-Poulenc (\$5.8 billion sales) and England's British Gas (\$9.6 billion). And while many foreign stocks are difficult to buy and sell, the governments make sure that these privatization mega-issues are a snap to trade. Because the sales are so big relative to the local markets (British Gas, for example, will come out valued at some 4% of the total London market), the stocks are sold in the U.S., where investors can buy them via American Depositary Receipts at their broker.

To make these stalwarts even more enticing, they will come with balance sheets unencumbered with piles of debt, and trimmed labor forces. And then there's the price. "If the government wants them to be a success, the deals must be underpriced," says Paris lawyer Jean Loyrette, who drew the French blueprint for the sales.

Take the U.K.'s 1984 offering of

phone company British Telecom, at \$4.6 billion the world's biggest equity offering ever. In the U.S. the stock came out at 15½ and the same day moved to 29. Institutional money in the U.S. and Canada grabbed 8% of the deal, then almost immediately unloaded it. North Americans now hold less than 1% of the outstanding shares. "BT was clearly absurdly cheap," says money manager Nicholas Bratt of Scudder International. "It's not often in this business that we make as much money as we did as quickly as we did on BT." Because BT is a big part of London's market index, U.K. institutions quickly bought what the North Americans sold, keeping BT's price up (recently 32½) along with their exchange index.

Happy investors, happier government: The BT deal almost doubled the number of Britons directly owning stock, now 5% of the population (versus 20% in the U.S.). No wonder a lot of big money eagerly awaits the sale of British Airways (valued at \$1.5 billion to \$1.7 billion) and the fall offering of British Gas, a record \$10 billion to \$12 billion deal. "BT has encouraged people to see these deals as a bonanza," says a U.S. banker (see table).

But there's another, not so obvious, reason for the low prices. The governments usually retain some control of their privatized companies and aren't afraid to use it. In 1984 the U.K. government exercised its "golden share" (which lets it intervene in cases of a "national strategic element") in Enterprise Oil. U.K. mining concern Rio Tinto-Zinc tried to buy control of Enterprise, but the government blocked the sale, in all likelihood depriving investors of a takeover premium. "With a golden share, you give up that element of control," says Sean Roche, international portfolio manager with Boston's Putnam Financial.

In France the new government is likely to privatize without a golden share, though foreign ownership will be restricted to 20%, limiting takeover possibilities by non-French raiders. First up for sale are big banks, like Paribas and Société Générale, and then the giant industrials like \$8.5 billion (sales) electrical firm Compagnie Générale d'Électricité. The industrials with good profit records and U.S. ties (\$7 billion Saint-Gobain, for example, owns CertainTeed, the U.S. insulation firm) are the most likely candidates for sale in the U.S., says Evan Galbraith, director international of Morgan Stanley and the former U.S. ambassador to France. But even the deals not directly offered in the U.S. can be purchased via mutual funds,

British bargains

The U.K. is the world's privatization leader, selling companies at low prices to spread shareholder capitalism. For investors—domestic and foreign—that means bargains. With the exception of oil companies, all the British sales have outperformed the market. And other countries, such as France and Singapore, are following the same low-price route. Below is a scorecard of recent U.K. issues.

Company/offer date	Offering price	Current price	Change in stock price	Change in market (from offer date)
British Aerospace/Feb 1981	150p	566p	277%	167%
Cable & Wireless/Oct 1981	112*	690	516	188
Britoil/Nov 1982	215	181	-16	126
Enterprise Oil/June 1984	185	132	-29	65
Jaguar/July 1984	165	470	185	71
British Telecom/Nov 1984	130	258†	98	47

p: U.K. stock prices quoted in pence. *Adjusted for stock split. †Fully paid basis.

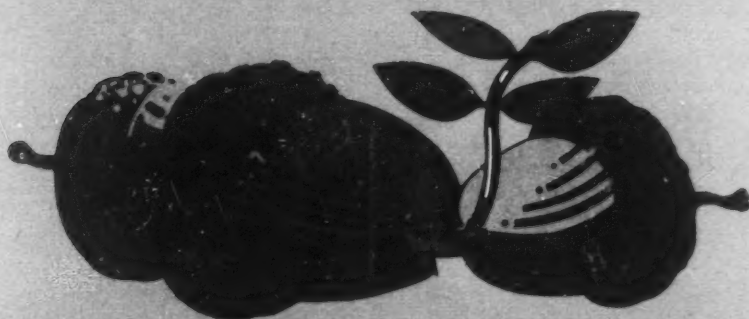
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Some French companies have been able to take advantage of the French government's privatization program. We were part of the team that helped them do it. Now we're helping other companies do it. We're looking for companies that want to do it. We're looking for companies that want to do it. We're looking for companies that want to do it.

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like the France fund currently being organized by Dillon, Read.

Some investors, however, seem put off by another factor: the possibility that since nationalization happened once, it could happen again. Which is true enough. But recall that even socialist Mitterrand paid private investors a good price when he took control of French corporations in 1982. And England's opposition Labor Party is not talking renationalization.

In any case, money managers are impressed with the improvements government owners make in preparing a firm for privatization, from new management to reducing debt. And if some changes are window dressing, so what? "If a privatized company still has lots of fat, it means there's more room for earnings improvement when it's public," says Sean Roche. For the

**For the long term you buy
basic assets and an
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term there is that highly
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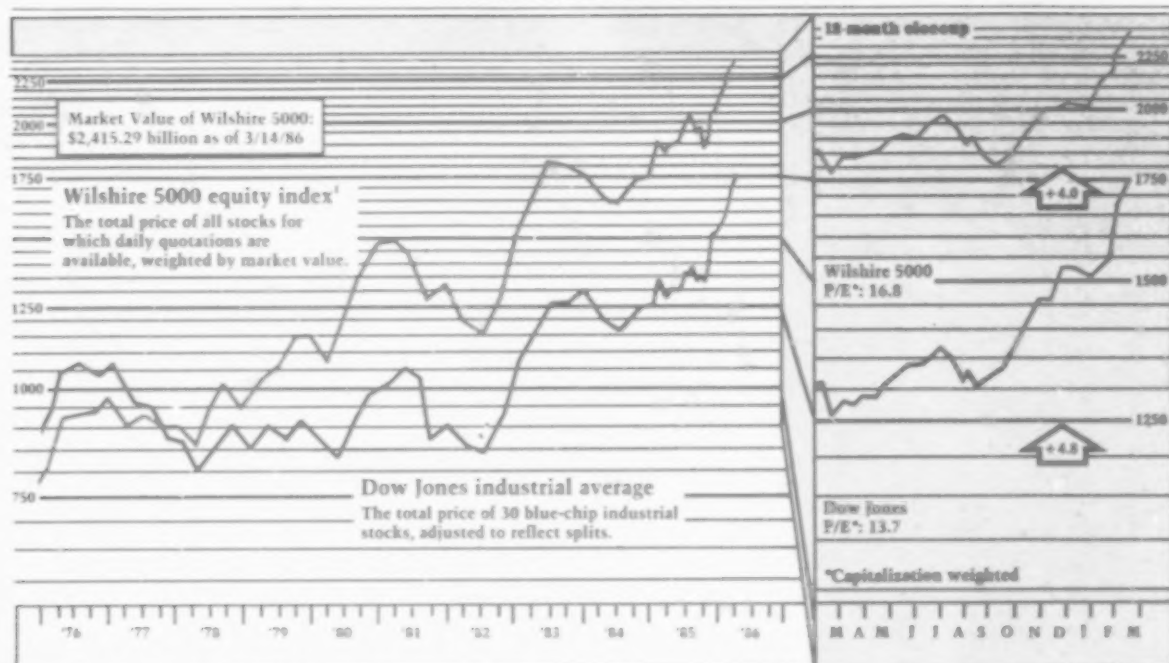
long-term investor, says one money man, "What you're really buying in a privatization is an economy. Utilities and airlines are basic businesses." For the short-term player there's that highly probable quick gain.

Still, the fact that a government is selling a company doesn't guarantee it's a winner. International investors smelled a dog in U.K. oil company Britoil. "The government rushed to get out the prospectus during high oil prices," recalls a U.S. investor who passed on the deal. Smart move; the stock is now at 181 pence, 16% below the 1982 offering price. Banker Galbraith thinks the French banks probably won't be too enticing, either. U.S. banks don't trade at premiums, he argues, so why should French ones? And Loyrette worries the French may be privatizing at the top of a hot Paris market, roaring on enthusiasm for a new government, but leaving little room for investors to take gains.

The bottom line, though, is that no government can afford too many losers. "If a \$6 billion deal is a turkey, you're putting the whole financial community at risk," says a banker working with the U.K. government. Not to mention unhappy investors, who will turn away the next time the government tries a sale, defeating the primary objectives of shrinking the government and spreading capitalism. Privatization, remember, has more to do with politics than price. ■

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Is it a dream? The Dow industrials are up nearly 250 points since the start of the year and nearly 500 points since the rally began in mid-September 1985. The movement has been almost straight upward: The few brief and feeble market corrections have been quickly engulfed in new waves of rising prices. The blue-chip index closed the latest two-week period just a few points below the 1800 level. The total market capitalization of the broad-based Wilshire index has gained some \$318 billion since the

beginning of the year.

This buying frenzy has pushed up the Wilshire to 16.8 times latest 12-month earnings. Investors are paying a premium for stocks because they expect the effects of lower energy prices and lower inflation to ripple through the economy, boosting corporate earnings. If these forecasts don't pan out, however, or if investors decide that lower inflation isn't quite as bullish for stocks as commonly believed, stocks will seem way overpriced.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ²	Dow Jones Industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	7.2	7.4	7.7	7.5	9.3	6.2
in last 52 weeks	33.3	35.4	43.7	32.9	19.9	33.8

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility ³		P/E multiple		Dividend yield		Growth profile ⁴		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	7.7	7.5	10.1	5.9	5.4	10.3	6.6	9.1	7.2	7.9	8.4	9.4
in last 52 weeks	38.0	33.5	55.9	35.6	25.7	44.8	31.3	40.8	47.0	42.3	47.5	20.3

¹Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created.

²Based on sales.

³A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.

⁴A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 3/14/86. Prepared by Wilshire Associates, Santa Monica, Calif.

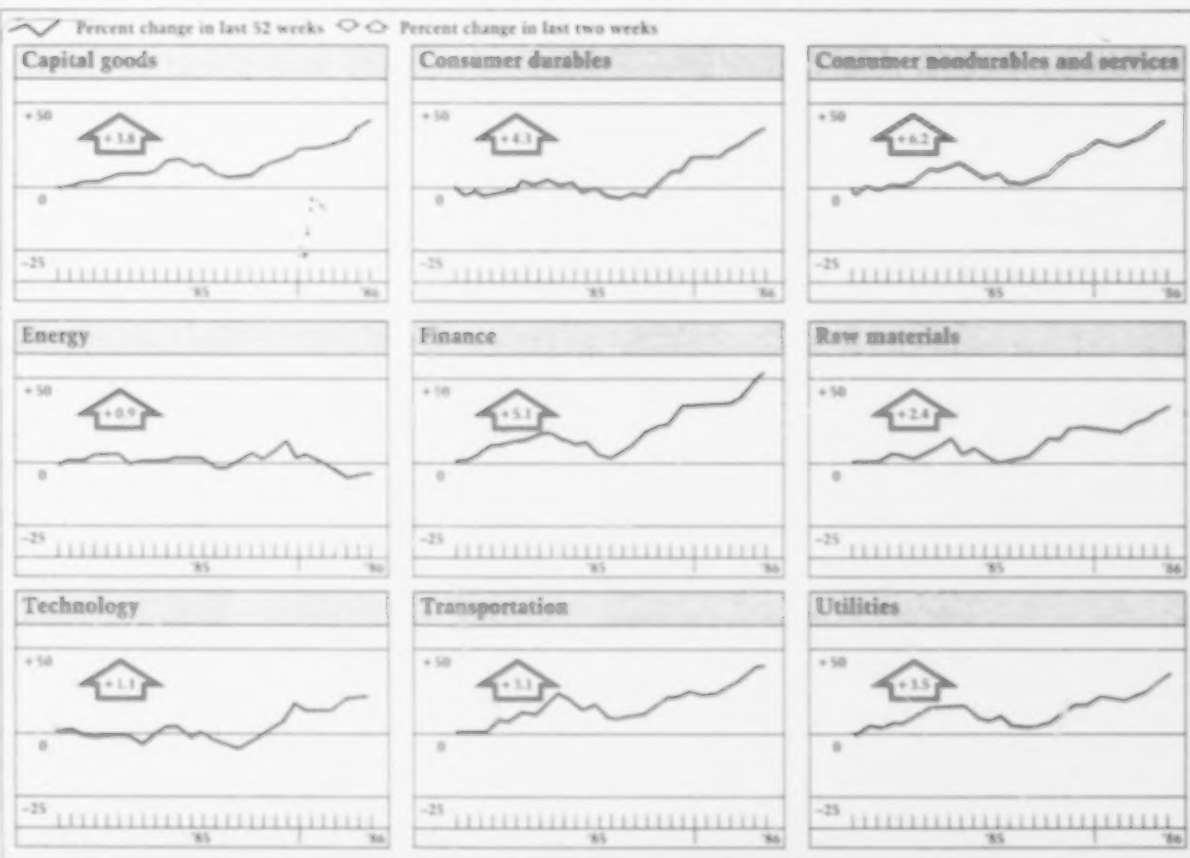
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Where The Action Is

Genes are in fashion again. Genentech, the DNA manipulator, rose 43% in the last two weeks, helping push consumer nondurables to a 6.2% gain. (The Wilshire index rose 4% in the period.) Does this say something about the nature of the current bull market? Genentech now has a market capitalization of \$1.9 billion, about the same as that of Litton Industries. Last year, however,

Litton had sales of \$4.6 billion, while Genentech had sales of \$90 million. Even if Genentech's sales were to grow at an annual rate of 53% to Litton's 3%, it would take the company nearly ten years to match the size of Litton.

Energy held the line with a 0.9% gain. But McDermott International, the offshore-platform constructor with a \$1 billion portfolio of government securities, gained 31%.



What The Analysts Think

A strong market makes people feel richer. Falling energy prices and interest rates, the theory goes, should put more money in consumers' pockets. So Wall Street raised its

1986 earnings estimates for the two consumer goods sectors. Estimates were also a bit higher for New York banks, S&Ls and insurance companies.

Forecasting the Fortune 500			Rank based on change in estimate		Sector		Estimated 1986		% change in 1986 estimate	
Performance period	Average earnings per share	P/E					EPS	P/E	in 2 weeks	in 4 weeks
latest 12 months	\$3.02	15.9	1		Consumer durables		\$4.23	9.4	1.35%	1.52%
1986 estimates	4.07	11.8	2		Finance		3.82	11.0	0.11	0.93
1987 estimates	4.75	10.3	3		Consumer nondurables		2.52	14.9	0.11	-0.01
			4		Utilities		3.34	9.4	-0.02	-0.36
			5		Technology		2.88	14.0	-0.42	-0.96
			6		Raw materials		2.22	14.6	-0.62	-1.27
			7		Transportation		2.57	12.3	-0.63	-1.23
			8		Capital goods		2.79	14.3	-1.11	-1.14
			9		Energy		3.17	8.9	-5.47	-9.11

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 3/14/86. Prepared by Wilshire Associates, Santa Monica, Calif. IBES, a service of Lynch, Jones & Ryan, New York.